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**FISCAL IMPACT STATEMENT**

**LS 7525**

**BILL NUMBER:** HB 1002

**NOTE PREPARED:** Jan 27, 2011

**BILL AMENDED:** Jan 25, 2010

**SUBJECT:** Charter Schools.

**FIRST AUTHOR:** Rep. Bosma

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Health Insurance:* This bill allows charter schools to opt in to the state health insurance plans.

*Charter School Board:* The bill establishes the Charter School Board as a statewide sponsor of charter schools.

*Sponsors:* The bill adds the executive of a second-class city and nonproprietary private colleges and universities as eligible charter school sponsors.

*Charter School Monitoring:* The bill requires the State Board of Education to establish procedures to monitor all charter school sponsors in Indiana. It adds: (1) student academic growth; (2) financial performance and stability; and (3) board performance and stewardship; to the list of items to be included in a charter school's charter.

*Transfer of Credits:* The bill requires uniform and consistent transfer of credits for students who transfer from a charter school to another public school.

*Conversion Charter Employees:* The bill stipulates that a teacher in a conversion charter school may be an employee of the charter school or the school corporation as determined in a charter school's charter.

*Fees:* The bill sets out the conditions, accounting process, and reporting procedures for a charter school sponsor concerning the collection of fees from its sponsored charter schools.

*Buildings:* The bill allows charter schools to lease or purchase unused school buildings owned by school corporations.

*Property Taxes:* The bill provides for part of a school corporation's transportation fund levy to be distributed to charter schools, unless the school corporation provides transportation to charter school students.

*Charter School Loans:* The bill establishes the Charter School Facilities Aid Program and the Charter School Facilities Revolving Loan Program. It cancels interest payments on advances made to charter schools from the Common School Fund.

The bill makes conforming changes.

*Conversion Charter Schools:* The bill changes the procedure for converting a public school into a charter school.

*Repealers:* The bill repeals provisions concerning: (1) the number of charter schools an executive of a consolidated city may sponsor; and (2) charter school admissions for students outside the student's school district.

**Effective Date:** Upon passage; July 1, 2011; January 1, 2012.

**Explanation of State Expenditures:** *Health Insurance:* There might be some minor impact if the inclusion of the charter schools affected the health experience of the state employee health plan as a whole. The impact of the provision should be very minor since the charter school would pay the insurance premiums.

*Charter Board:* The bill would create the a seven-member Charter Board. The board would consist of:

1. Two persons appointed by the Governor,
2. One person appointed by the State Superintendent of Instruction.
3. One person appointed by the President Pro Tempore of the Senate.
4. One person appointed by the Minority Leader of the Senate.
5. One person appointed by the Speaker of the House of Representatives.
6. One person appointed by the Minority Leader of the House of Representatives.

The members of the board are eligible for salary per diem and travel expenses. The Department of Education (DOE) shall hire staff to carry out the duties of the Board. Funding for the Board comes from a fee charged to charter schools based on 3% of their basic tuition support. The fees should cover the administrative costs of the Board.

(Revised) *Sponsors:* The bill would allow the following entities to sponsor charter schools:

1. Schools that used their sponsorship authority before July 1, 2011.
2. State educational institutions that offer four-year associate or baccalaureate degrees.
3. The mayor of Indianapolis or a second class city.
4. The Charter Board.
5. A nonproprietary private college or university approved by DOE.

The bill could increase the number of charter schools in the state. Currently, a charter can be sponsored by a school corporation, a state educational institution, or the mayor of Indianapolis. There are currently about 62 charter schools that educate about 22,000 students. Of the 62 charter schools, 35 were sponsored by Ball

State University and 23 were sponsored by the mayor of Indianapolis.

(Revised) *Buildings*: The DOE would have to create a list of unused facilities owned by each school corporation and make the list available on the Department's website. DOE would incur some minor costs creating and maintaining the list. Placing the list on the website would not increase costs.

*Virtual Charters*: The bill changes the current virtual charter school formula from 80% of the statewide average basic tuition support to 90% of the average. There is currently a 500-student enrollment limit for virtual charter schools in 2011. However, this bill eliminates the cap on the number of students that may be enrolled in a virtual charter for years beginning in 2012. The impact of changing the 80% to 90% would increase virtual school revenue by about \$283,000 for the current number of students. The impact on future school formulas would depend on if the increase caused the school formula to exceed the calendar year maximum. If it did, then the increased costs would be spread among the other school corporations on a percentage basis and there would be no increase in state expenditures. However if the change in reimbursement increased expenditures under the maximum cap for tuition support, the change would increase state expenditures by that increment.

(Revised) *Indiana Finance Authority*: This bill allows the Indiana Finance Authority to make loans from the proceeds of grant anticipation revenue bonds to the Charter School Facilities Aid Fund or to the Charter School Facilities Revolving Loan Fund. These loans would be secured by the pledge of grant revenue awarded to the DOE or by credit enhancements, guaranties, or pledge of one or more bonds, notes, warrants, or other secured or unsecured debt obligations of users or developers of an educational project funded through the Charter School Facilities Aid Fund or to the Charter School Facilities Revolving Loan Fund.

(Revised) *Charter School Loans*: The bill establishes the Charter School Facilities Aid Program and the Charter School Facilities Revolving Loan Program.

The Charter School Facilities Aid Program and Fund are established to provide grants to assist charter schools in financing charter school building projects, general improvements to these buildings, and repayment of debt for charter school projects. DOE will administer the program, and expenses for administering the program will be paid from money in the fund. Money in the fund does not revert at the end of the fiscal year. The fund may consist of state appropriations, gifts, federal grants, and proceeds from grant anticipation revenue bonds issued by the Indiana Finance Authority. DOE may authorize money in the fund to repay grant anticipation revenue bonds or other bonds issued by the Indiana Bond Bank.

The Charter School Facilities Revolving Loan Program and Fund are established to provide loans to charter schools for the constructing, purchasing, renovating, and maintaining of charter school facilities. DOE will administer the program, and expenses for administering the program will be paid from the fund. The fund would consist of state appropriations, repayment of loans, gifts, federal grants, and proceeds from grant anticipation revenue bonds issued by the Indiana Finance Authority. Money in the fund does not revert at the end of the fiscal year. DOE shall determine the maximum amount allowed for loans, interest rates, and other terms of the loans. Charter schools receiving a loan shall repay the loan from state tuition support and other resources available to the school. DOE shall withhold the amount of debt service obligations due in a year from the charter school's tuition support, and the Auditor shall transfer the amount withheld to the Revolving Loan Fund.

**Explanation of State Revenues:** *Fees*: The bill allows additional sponsors of charter schools to charge an administrative fee to the organizer of the individual charter school. Currently, only a state educational

institution may charge a maximum fee of 3% of a charter school's basic tuition support to the charter school organizer. This bill would also allow the mayor of a consolidated city or second class city that sponsors a charter, a private college or university, and the Charter Board to charge an administrative fee up to the 3% maximum. If the fees were applied to current charter schools, the maximum fee would vary from \$4,000 to \$400,000 per charter school.

(Revised) *Common School Fund Loans*: The bill would eliminate interest payments due by charter schools for Common School Fund advancements. The outstanding balances of advancements as of January 1, 2010, were about \$65.2 M. The advancements had an interest rate of 4%. The loss in interest revenue would be about \$2.5 M annually.

**Explanation of Local Expenditures:** *Transfer of Credits*: The transfer of credits from a charter school to a public noncharter school should have no fiscal impact.

*Conversion Charter Employees*: The bill could reduce the cost of conversion charter schools. Currently, charter school employees are employees of both the charter school and the sponsoring school corporation. The provision could reduce conversion charter school costs.

(Revised) *Buildings*: An unused building is one where less than 25% of the building's square footage is used throughout the school year for student instruction and for which no offer to purchase has been executed. School corporations could incur some costs in creating the list of unused school buildings and providing it to DOE. The cost per school corporation should be small. The bill could reduce the capital costs for charter schools if they can use space in existing school corporations. It is unknown how many school corporations have unused buildings.

(Revised) *Conversion Charter Schools*: The bill would change the procedure for establishing a charter school. Currently, the conversion from a public school to a charter school requires both a petition where 60% of the teachers at the school request the conversion and a petition where 51% of the parents of students at the school request the conversion. The bill would allow conversion if either the school board votes in favor of conversion or 51% of the parents of students at the school sign a petition requesting the conversion or 51% of the teachers sign a petition in certain situations. The impact would depend on the number of conversions. To date there has been one school that has converted to a charter school.

(Revised) *Transportation*: This bill allows a school corporation to provide transportation without charge to a charter school student who has legal settlement in the school corporation from the student's residence to the charter school. If the school corporation decides to provide transportation, then there could be an increase in transportation costs, depending on bus routes. The additional cost would have to be funded within the school corporation's current transportation fund levy. The additional cost for the school corporation could be included in a levy appeal if the additional students caused costs to increase by more than 10%.

**Explanation of Local Revenues:** (Revised) *Transportation Fund Property Taxes*: The bill provides for a portion of Transportation Fund levies to be distributed to charter schools if the school corporation decides not to provide transportation for students attending at the charter school. The distribution to a charter school is to equal the school corporation's Transportation Fund levy times the number of students attending the charter school who live in the school corporation and are in kindergarten to Grade 8 and special education children in Grades 9 to 12 divided by the total number of students attending charter schools and the current ADM of the school corporation. The 2010 Transportation Fund certified levies were about \$485.5 M. There were about 701,994 K-8 students in school corporations and about 14,955 K-8 students enrolled in charter

schools in 2010. The impact would depend on the school corporation where the charter student resides. There would be a shift of property tax revenue from school corporations to charter schools. Based on the current number of charter students, there could be a shift of about \$10.1 M (based on CY 2010 data) if school corporations did not provide transportation services directly to the charter school students.

**State Agencies Affected:** Department of Education.

**Local Agencies Affected:** Charter schools; School corporations.

**Information Sources:** Treasurer of State; Auditor of State; Department of Education databases.

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